REPORT TO SHAREHOLDERS

We are very pleased with our corporate, operations and financial achievements in 2017:

- Revenues increased 82% to $147.1 million of which 78% was from United States source.
- Total Adjusted EBITDAS increased 220% to $18.8 million.
- We eliminated our debt in early 2017 and retained a positive cash balance throughout the year.
- We reacted quickly to a significant increase in industry activity levels and we were able to diversify our client base relative to 2016.
- We continued to make improvements in our sales and operations areas to support our value proposition of providing our clients Better Performance Every Day.
- We executed on the beginning of a longer term capital expenditure and business improvement investment plan which will position us for future growth.
- We exceeded our health and safety objectives for the year.
- Based in part to the above financial achievements, our share price gained 170% from the $0.70 range at the beginning of 2017 to the $1.75 range at year end.

As noted in our 2016 annual report, 2016 was a very challenging year for Cathedral from both an operations and financial perspective. 2016 was about continuing to improve our sales and operations capabilities and retaining key clients during a severe industry downturn - while at the same time exercising very conservative fiscal management in order to improve our balance sheet. In contrast, 2017 was all about ramping up our business to meet improving drilling activity levels particularly in the United States (U.S.) which is our primary focus market.

A big achievement for us in 2017 was improving our financial position. At the end of 2016 we had made significant progress on strengthening our balance sheet with the announced divestment of our Flowback and Production Testing ("F&PT") division for proceeds of $17.8 million. The sale was a result of a strategic alternatives process entered into in mid-2016 that was largely precipitated by the commercial banks in our banking syndicate. In hindsight, the sale of the F&PT division proved to be a good decision not only based on the proceeds received but the divesture allowing us to focus all our efforts and resources on our directional drilling business which was ramping up significantly in early 2017. Following the F&PT division divestiture we also completed an equity financing in mid-February for gross proceeds of $14.1 million. As a consequence of the above financing activities and cash flow from operations we were bank debt free and maintained a positive cash balance through to the end of the year.

The strength of our balance sheet and our improving financial performance through 2017 allowed us to attract a new banking syndicate. In December 2017 we announced that we had entered into a new Credit Facility with Alberta Treasury Branches and Export Development Canada (EDC) as lenders. EDC continues to support us as they were a lender in the previous facility.

Going into 2017 we expected to be impacted by three key themes:

- continued commodity price volatility impacting activity levels;
- intense competitive pressure and continued customer attention on drilling costs - impacting pricing; and
- labour availability and vendor supply and price challenges - impacting expenses

Although we experienced commodity price volatility throughout the year, there was a strong increase in activity levels in both the U.S. and Canada. An average WTI oil price for the year of $52 bbl USD supported our previous assertion that WTI pricing in the $50 bbl range and above would translate into improved activity levels in our business.

In 2017 the U.S. active rig count grew from 658 at the beginning of the year to 929 rigs at the end for an average rig count of 876. The U.S. year-over-year rig count growth in 2017 was 80% over the average rig count of 512 in 2016 (source: Baker Hughes). In 2017 our U.S. activity days increased 90% to 9,782 in 2017 from 5,145 in 2016. In 2017 the average Canadian rig count was 206 compared to an average rig count of 129 in 2016 representing a 60% growth. In 2017, our Canadian activity days increased 59% to 3,890 from 2,440 in 2016.

On the pricing side we were able to achieve price increases from our U.S. customers throughout the year. In Canada pricing remained challenging. Our average Canadian day rate in 2017 was $7,106 compared to an average day rate in the U.S. of $11,655 ($8,981 in USD). As is well published, the Canadian energy industry is having challenges based on the political climate and take away capacity for both oil and natural gas. As such Cathedral's continuing focus is on the larger U.S. market where we have better growth prospects and achieve better pricing and cash flow contributions. As our corporate and operational support costs are largely in Canada we also benefit from the USD/CAD exchange rate. In 2017, 78% of our revenues in CAD were derived from the U.S. market.

Over the year, we did experience both labor and supplier challenges. The labor issues were mainly related to the U.S. market were both labor availability and wage escalation were challenges. The supplier challenges were primarily due to the supply chain ramping up in the year resulting in long lead times on some critical items. We are generally able to push through equipment consumable costs and labor price increases to clients' over time, however, the price increases have more recently tended to lag our expense increases. Expense management continues to be a proactive focus area from the top to the very bottom of the Company.

A big challenge for Cathedral since the industry downturn was a change in our client's drilling practices and the downhole drilling environment becoming more severe. Energy companies are demanding wells be drilled, cheaper, longer and faster than wells drilled pre-downturn. The oilfield service industry has risen to this challenge, however, to achieve this equipment is being run harder, longer and in more demanding operating environments. Directional drilling equipment is being pushed harder and faster than in the past resulting in equipment being damaged, more frequent repairs and in part contributing to higher equipment lost-in-hole frequency.

In addition, equipment that worked well pre-2014, particularly drilling motors, is not able to meet the performance challenges post-downturn – energy companies want the latest and greatest equipment on their jobs. To a large degree, directional drilling equipment that was fit for purpose five years ago is quickly becoming obsolete.

Responding to this new drilling environment was a key focus area for us in 2017. Due to equipment damage and equipment lost-in-hole, our job capacity became constrained mid-year. The competitive environment was also such that clients were reluctant to pay for damages even if we could demonstrate the damage was directly caused by their drilling practices.

The positive news is that based on Cathedral having our own equipment expertise and doing our own repairs we are able to react to these demands quickly. Our Drilling Engineering and Sales teams worked with clients to recover equipment damages and assist them with improving their drilling practices to mitigate them. We improved our ability to recover equipment damages and have had very good success recovering funds for equipment lost-in-hole from clients. Our technology development teams worked on equipment modifications and performance enhancements. We aggressively ramped up our capital spending program mid-year to alleviate our equipment constraints and to start developing and funding a new line of high performance motors. In 2017 we invested $11.3 million in new equipment, replacing equipment lost-in-hole and upgrading existing equipment. By late 2017 we were able to reap the benefits of the incremental capital expenditures and other operational improvements.

With our equipment capacity now increasing, the improvements we have made in operations, sales and technology over the past three years and our acute focus on providing our clients *"Better Performance Every Day"* we are positive about our prospects going into 2018.

We thank our employees for their continued dedication and hard work and our customers, vendors and business partners for their support though the trying times over the past couple of years and with supporting the ramp up of our business. Finally, we thank our shareholders for their support and confidence in our business prospects and strategy.

Sincerely,

Signed: *"P. Scott MacFarlane"*

P. Scott MacFarlane

President and Chief Executive Officer

Cathedral Energy Services Ltd.

March 8, 2018